Economist.com PRINT EDITION SURVEY

Time travellers

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From The Economist print edition

The Gulf states have come a long way, fast. Now they need to think about where they are going, says Max Rodenbeck

DUBAI'S Internet City looks rather unreal, like an architect's model come alive. Mirrored façades gleam. Ever-blue sky glistens in reflecting pools. Smart-looking office workers mingle in open plazas. Yet the business conducted here is real enough. Two hundred firms employing 4,000 workers are installed already and another 100 are due to arrive this year, including big names such as Cisco, Sun and Oracle, following in the wake of Microsoft. By 2010, if the momentum keeps up as planned, the city's bold ambition is to host some 80,000 “knowledge professionals”, making it the IT hub of a region stretching from Bologna to Bangalore.

Until recently there was nothing here but desert, but three years ago Dubai's ruler, Sheikh Muhammad Bin Rashed al-Maktoum, thought up the idea of a fully serviced, tax-free IT village to complement his emirate's growing list of other attractions. These include the Media City taking shape next door, the yacht marina, the indoor ski slope, the tropical jungle and the giant, palm-tree shaped artificial island all under construction, and the string of sumptuous resorts along the nearby beach where 20 years ago there were only a few fishermen's huts.

Only yesterday

Here, as elsewhere in the Gulf, the pace of change has been breathtaking. In Dubai, where desalination plants now meet the country's voracious demand for water, old people remember filling tins from shallow wells outside the city and trundling them into town on donkeyback. The vast, low-lying sprawl of Riyadh, Saudi Arabia's capital, may soon be relieved by a pair of graceful skyscrapers, but some still recall the beggarwomen who used to squat in the dust by the gates of the king's mudbrick palace, whimpering for alms. Oman today is as orderly as Denmark, yet as recently as the 1960s lunatics were stumbling through the souks of its capital in leg-irons, and diminutive long-haired mountain men, naked to the waist and armed with axes, were roaming its remote interior. In what is now the asphalt jungle of Kuwait city, goats used to amble. And not so long ago the main landmark of Abu Dhabi, today a glittering Miami-scape of towers and boulevards set amidst lush parks, was a single scraggly acacia tree.

Numbers tell an equally dramatic tale. The population of the United Arab Emirates has increased 35-fold since 1950, and the area of the city of Riyadh has grown 100-fold. In Oman, electricity output has risen 670 times over the past 30 years, the number of telephones 420 times and the number of doctors 260 times. In Qatar, average incomes have grown 50-fold since 1960, and average wealth 200-fold.

"I grew up with camels," says the Internet City's chief executive, Ahmed bin Byat, flicking back the folds of his crisp white headdress to sip his cappuccino in a glass-walled conference room. "My generation's been through a time machine that's left our parents in the old world and put our children in the new one." The pace of change has been exciting, he says, but also stressful: "You constantly have to make decisions that will have an impact far into the future. You have to choose what to take with you and what to leave behind, because you can't take everything."

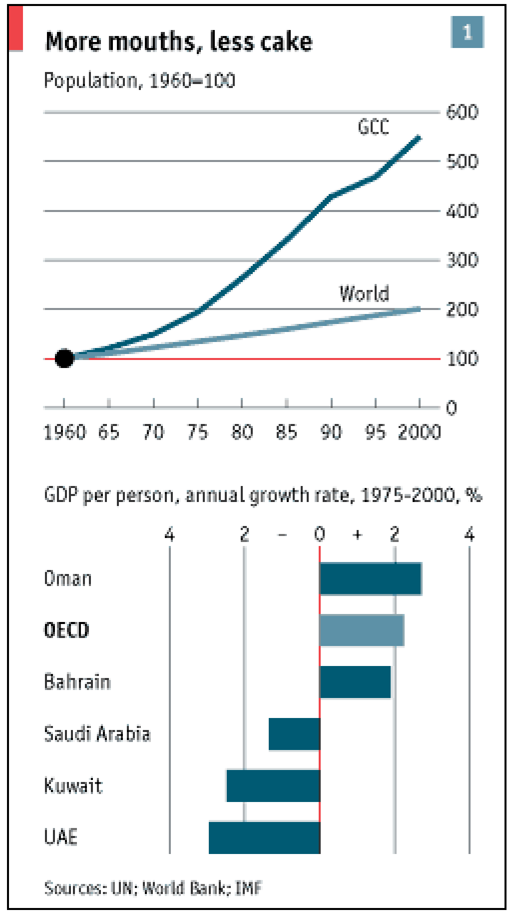
Half a century ago, all six of the desert monarchies that make up the Gulf Co-operation Council (GCC) were wretchedly poor, thinly populated and so loosely governed they could barely claim the status of nations. All were catapulted into modernity by a gusher of oil, and left scrambling to find a way to manage their sudden riches. All have had to cope with the most wrenching change any part of the world has had to endure in living memory, including the fastest population growth, the most rapid urbanisation and some of the biggest tides of immigration.

By most measures they have done well. Since 1970 their governments have spent a combined total of $2 trillion to treble literacy levels to 75%, add 20 years to average life expectancy and create a world-class infrastructure. Education, once limited to a lucky few males living in large cities, or whose families could afford to send them abroad, is now universal and free. Health care and housing, subsidised by all six states, are generally of a high standard. And although the image of Arabs wallowing in wanton luxury persists abroad, Gulf societies, with some notable exceptions, are fairly egalitarian. Saudi Arabia's 5,000 princes and its great merchant families are indeed rich beyond the dreams of avarice, yet the kingdom as a whole has a per-head income little higher than Mexico's. Unlike Mexico, however, it has no slums or seriously deprived regions, no child malnutrition, practically no single-parent households and virtually no crime.

Thirty years ago an Egyptian diplomat could dismiss his Gulf neighbours as "tribes with flags". This is no longer true: they are now countries with strong institutions and national identities. With minor exceptions, their borders—long a source of trouble, as Kuwaitis can attest—have been fixed for good. Their economies are the most dynamic in the region. Their business and government leaders are fairly sophisticated and outward-looking.

They need to be. The Gulf may never again see the kind of quantum leap in its fortunes that has transformed it over the past few decades, but it still faces the tough choices Mr bin Byat speaks of. Perhaps the toughest ones are yet to come. The period of nation-building is pretty much over. So, too, is the phase when oil wealth alone could make and keep the region prosperous, as well as insulate Gulf societies from the buffeting winds of globalisation.

This survey will argue that the Arab states of the Gulf, with few exceptions, have been slow to gear up for the problems ahead. This is not to say that they are unaware of what is needed. There is talk everywhere of shifting from quantity to quality in education, of employing more local and less imported labour, of freeing private industry and scaling down the role of the state, of opening up to foreign investment and of speeding regional integration. Several rulers are even giving political rights to their citizens, including women.



But more urgent action is needed. Unemployment has only just surfaced, but will balloon dangerously in coming years as populations continue to grow rapidly. Cradle-to-grave welfare systems will begin to come apart. With prospects for oil revenues flat for the indefinite future, diversification efforts must start now, while coffers are still fairly full. The chances of success would be much improved by an unconditional embrace of open markets and a big shift in government priorities, from planning and production to regulation and arbitration.

Security is another concern. Huddling increasingly uncomfortably under an American umbrella, the GCC states have made little progress towards a joint defence. Given that they hold 45% of the world's known oil reserves, and are close to such emerging regional powers as India, Iran and China, they need to get organised.

Perhaps most difficult of all is the question, in Mr bin Byat's words, of “what to take with you” from the past. Gulf Arabs are proud of their traditions, and have tended to cast them in stone. Resistance to change need not be a bad thing, but the inflexibility of some Gulf societies holds back their potential for growth and for general well-being.

Political reform is vital—if not to sweep away the cosy patriarchies that currently siphon off so much of the region's vitality, then at least to render governments more effective, responsive and predictable. Women must be granted greater equality, whether conservatives like it or not. The new, more educated generation will not put up with the boredom and restrictions their mothers had to endure. And the economic argument against keeping half the workforce idle is conclusive.

And then there is the issue of Islam, swept to the fore by recent events. Since September's attacks on America, Muslims have been hurt by what they see as a wave of undeserved hostility. At the same time, though, few religious leaders in the Gulf have gone out of their way to advocate understanding and acceptance of other faiths and ways of life. Until they do, doubts will linger about the prospects of harmonious relations with that part of the world.

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Middle Earth

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Oil is big, but it is not the only reason to take the Gulf seriously

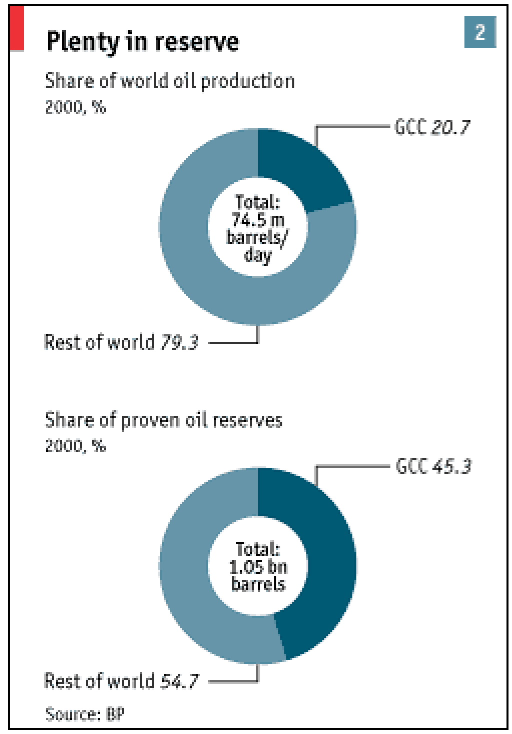
Contentious wealth

EVERY day some 16m barrels of oil leave the Gulf through the Strait of Hormuz. That is enough to fill a soft-drink can for everyone on earth, or to power every motor vehicle on the planet for 25 miles (40km). Gulf oil (including that from Iran and Iraq) accounts for 40% of global trade in the sticky stuff. More important, it makes up two-thirds of known deposits. Whereas at present production rates the rest of the world's oil reserves will last for a mere 25 years, the Gulf's will last for 100. In other words, the region's strategic importance is set to grow and grow.

Or at least so goes the conventional wisdom, which is usually rounded out with scary talk of unstable, spendthrift regimes and a lurking fundamentalist menace. Yet all those numbers come with caveats. A great deal of oil is consumed by the countries that produce it rather than traded, so in reality the Gulf accounts for less than a quarter of the world's daily consumption. As for reserves, the figures are as changeable as a mirage in the desert. The most comprehensive research available, conducted by the US Geological Survey (USGS World Petroleum Assessment 2000), refers to an “expected” total volume for global hydrocarbon deposits that is about double current known reserves. Using that figure, and throwing in natural gas along with oil (which makes sense because the use of gas is increasing far more rapidly), it appears that the Gulf contains a more moderate 30% or so of the planet's future fossil-fuel supplies, excluding coal, oil shale and everything else. Leaving out the two Gulf states that are not covered in this survey—Iran, with its immense gas holdings, and oil-rich Iraq—the remaining six between them hold something like 20% of world hydrocarbon reserves, not much more than Russia.

All the same, it is still a hefty chunk; enough, you might think, to keep the people living atop the wells in comfort for the foreseeable future. But you might be wrong. At present, the nations of the Gulf Co-operation Council have a combined national income roughly equal to Switzerland's, but a population which, at around 30m, is more than four times as big. It is also the fastest-growing on earth, having increased at nine times the Swiss rate over the past quarter-century. Meanwhile the region's share of world oil trade has fallen, as has the average price per barrel (amid much volatility). In real terms that price is not much higher now than when OPEC started pushing it up in 1973.

As a result, the income per person generated by GCC oil exports has been dwindling since the 1970s, precipitously in some countries: Saudi Arabia's GDP per head is now half of its 1980 peak. True, surging demand from America and Asia has recently boosted the Gulf's share of trade, but the medium-term outlook for oil prices remains weak. In the longer term, though, that could change. Twenty years from now, the rest of the world's reserves are likely to start declining fast. Combined with continued growth in oil consumption, this should create sustained upward pressure on prices. According to current predictions, by 2020 the Gulf will be supplying over half the world's oil needs. But by that time the Arab Gulf states' population will have doubled. And high oil prices will speed the search for alternatives. Who knows, in 20 years' time fuel cells and hydrogen power may have started to become commercial propositions.



GCC countries are doing their best to reduce their reliance on crude oil by building up sectors such as petrochemicals, banking and tourism. Even Saudi Arabia, the region's lumbering giant, has seen the contribution of crude exports to its economy shrink from an estimated 70% in the 1970s to around 35% today. Bahrain and the semi-autonomous emirate of Dubai remain solidly prosperous with oil exports that account for less than 15% of their GDP. Kuwait, Qatar and Dubai's sister emirate of Abu Dhabi have such small populations relative to their hydrocarbon resources, and such hoards of overseas assets, that they can depend on oil to sustain them for some time to come, even at half today's prices.

And while the oil keeps flowing, the Arab Gulf remains a lucrative market for exporters of food, consumer goods, weapons and technologies associated with such things as power generation and waterworks. The region's merchandise imports add up to nearly the same as Russia's and India's combined. Its ports and airports, capitalising on their location between Europe and Asia, have gained a growing share of global shipping. Gulf Arabs play an important part in foreign markets, too, holding an estimated $1.3 trillion in overseas investments, including perhaps $400 billion-worth of American shares. And the 11m expatriate workers the region employs send home $25 billion in remittances every year, improving the economic lot of countries such as Egypt, Pakistan, Sri Lanka, Syria, India, Bangladesh and the Philippines.

An unquiet spot

Given the GCC countries' economic importance, there is reason to be concerned about their military weakness and their proximity to trouble. Some of the world's most bothersome hotspots are within Scud range: the Horn of Africa, Israel and Palestine, India and Pakistan, and Iraq. The closest neighbours are particularly worrying. Iraq's leader, Saddam Hussein, has invaded Iran, gassed Kurds, stamped on Kuwait, lobbed ordnance at the Saudis and kept hidden chemical weapons. Iran, despite reformist currents, behaves erratically, is armed with missiles, harbours nuclear ambitions, occupies two strategic islands that are claimed by the United Arab Emirates and has rejected offers to settle the matter in the World Court.

Nor is the Gulf Arabs' record of self-defence encouraging. Throughout the 1980s they lavished an average of 15% of GDP on arms, and billions more on financing Iraq's war against Iran. That did not stop their northern neighbour from trashing Kuwait in 1990. They had no option but to call for outside help.

Tighter budgets throughout the 1990s have reduced the GCC countries' defence spending to around 9% of GDP, but the region's armies remain heavy on hardware and light on skill and manpower. Plans to integrate their defence planning have produced feeble results, though the countries have recently committed themselves to enlarging their existing joint strike force from a puny 5,000 men to 20,000. They have made a poor fist of co-ordinating arms purchases, which has precluded standardisation of weapons for the foreseeable future, and they have failed to create unified air defences. Two decades after the formation of the Gulf Co-operation Council, all six members co-operate more closely with America on defence matters than with each other.

Given the overwhelming dominance of America's forces, that may not be surprising. There are occasional moans about American hegemony, but the superpower has tried to keep a low profile. The number of American troops in the Gulf—currently around 25,000—belies the scale of the commitment. The 5,000 American soldiers in Kuwait, for example, have access to stocks that could equip a combat force several times the size. A similar number of American troops man the Prince Sultan airbase near Riyadh, a fancy facility the size of the entire Kingdom of Bahrain—which itself houses American airbases, as well as the headquarters of America's 5th Fleet. Another great stash of American weaponry sits in Qatar, and the airbase facilities America enjoys there, as well as in Oman and in the UAE, could probably be upgraded should anything go wrong with the Prince Sultan base.

The Americans found access to an archipelago of Gulf facilities indispensable in their Afghan campaign, and have since added further to their presence in the region. All four of their armed services now have advance headquarters there, and are likely to stay as long as the Pentagon has its sights set on "regime change" in Iraq, despite rumblings about pulling out of Saudi Arabia that have echoed both in Congress and in the Gulf. On Congress's side, the rumbles reflect disquiet about what has been perceived as a lame Saudi response to America's declaration of war on terror. It did not help that most of the September 11th hijackers, as well as their alleged paymaster, were Saudis. These concerns have revived older doubts about the nature of the Saudi regime, and particularly about its links with religious extremism.

The Saudis, for their part, have bristled at the suggestion that they might be indirectly responsible for an attack on their most important ally. Most of them think of Osama bin Laden as a heretic, which makes them all the more cross about being accused of fanaticism. Moreover, they are dismayed that the hostile noises coming from America, gleefully amplified in the local press, have actually increased the appeal of *jihad*-minded extremists.

The contrast between the kingdom's haughty secretiveness and America's preference for openness has always produced strains. Until the end of the cold war, a clear common interest helped to minimise the tension. But the past decade has seen growing Saudi ire at America's failure to "contain" Israel, and rising American irritation at the kingdom's friendliness towards Iran and Syria, which the Americans consider regional baddies. Crown Prince Abdullah, in effect Saudi Arabia's ruler, had even sent an anguished letter to George Bush only weeks before last September's attacks, decrying American indifference to the Palestinians and hinting that it was time to rethink the relationship.

Even so, the strength of American anger and Saudi indignation after September surprised both sides. The hurt will surely linger for some time. Healing it will require unusual tact from both, and there remains a danger that either American belligerence or Saudi obduracy could spark a real crisis. Yet America's long-term role in the region is not really in doubt. In private diwans, people do voice suspicions that the Americans are seeking control over the energy resources, not just of the Gulf but of the Caspian Sea and beyond. The region's leaders, however, recognise that what America wants is not physical possession but simply security—of oil supplies, trade routes and markets. That is something they can all agree on.

Saudi leaders may feel constrained about saying so at a time when America is flexing its muscles so openly, but the smaller Gulf states remain outspokenly pro-American. They share an ardent desire for "regime change" in Iraq, if not the will to risk bringing it about themselves. They quietly share hopes for a further cooling of Iran's revolutionary fervour. And they wholeheartedly agree on the need to bring *jihadist* militants to heel, even if they are wincing at the blunt instruments sometimes used for the task. Last but not least, the region's smaller monarchies appreciate America because they know that its presence keeps them safe from the ever-lurking fear that their Saudi big brother might try to push them around.

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People pressure

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The world's emptiest quarter is filling up fast


Wasted resource

ON A WEEKDAY night this January, thousands of flag-waving youths packed Olaya Street, Riyadh's main shopping strip, to cheer a memorable Saudi victory in the GCC Cup football final. One car, rock music blaring from its stereo, squealed to a stop, blocking an intersection. The passengers leapt out, clambered on to the roof and danced wildly in front of the honking crowd. Having paralysed the traffic across half the city, they sped off before the police could catch them.

Such public exuberance was once unthinkable in the dourly conformist kingdom, but now young people there and in other Gulf states are increasingly willing to challenge authority. That does not make them rebels: respect for elders, for religious duty and for maintaining family bonds remain pre-eminent values, and premarital sex is generally out of the question. Yet demography is beginning to put pressure on ultra-conservative norms.

After all, 60% of the Gulf's native population is under the age of 25. With many more of its citizens in school than in the workforce, the region faces at least a generation of rocketing demand for employment. In every single GCC country the native workforce will double by 2020. In Saudi Arabia it will grow from 3.3m now to over 8m. The task of managing this surge would be daunting enough for any society, but is particularly forbidding in this region, for several reasons.

The first is that the Gulf suffers from a lopsided labour structure. This goes back to the 1970s, when ballooning oil incomes allowed governments to import millions of foreign workers and to dispense cosy jobs to the locals. The result is a two-tier workforce, with outsiders working mostly in the private sector and natives monopolising the state bureaucracy. In Kuwait, for example, 93% of the 200,000 native citizens who have jobs are employed by the government, whereas 98% of the 900,000 people working in the private sector are foreigners. The emirate's private firms are as productive as any. But within the government, claims one study, workers are worth only a quarter of what they get paid.

Head counts 3

Country	Total 2002* population '000	Population growth rate 1960-2000, % pa	Population under 15 years % of total†	Non-citizens % of total†	Expats as % of workforce†
Bahrain	650	3.6	28.8	40	64
Kuwait	2,300	4.9	33.5	64	81
Oman	2,400	3.9	44.5	26	55‡
Qatar	720	6.5	26.8	80	90‡
Saudi Arabia	23,000	4.1	43.4	27	55‡
UAE	3,300	8.8	26.7	82	90‡

Sources: Dubai Inc; Gulf Investment Corporation; US State Dept; UNDP *Forecast †Latest ‡Estimate

Similarly, in the education sector, 30 years spent keeping pace with soaring student numbers has taken a heavy toll on standards. The Saudi school system, for instance, today has to cope with 5m students, eight times more than in 1970. And many Gulf countries adapted their curricula from Egyptian models that are now thoroughly discredited. They continue to favour rote learning of “facts” intended to instill patriotism or religious values.

The system as a whole discourages intellectual curiosity. It channels students into acquiring prestige degrees rather than gaining marketable skills. Of the 120,000 graduates that Saudi universities produced between 1995 and 1999, only 10,000 had studied technical subjects such as architecture or engineering. They accounted for only 2% of the total number of Saudis entering the job market.

The party's over

Finding a future for the region's youth is not just a matter of numbers. The 1970s wave of excessive wealth has passed, but expectations remain high. Today's young people tend to assume that they will enjoy the same lifestyle as their parents, with a desk job and a state salary fat enough to support servants and idle wives, with cash left over for foreign travel and their childrens' costly weddings, as well as such perks as generous state housing loans.

That sort of government largesse is now out of the question. It is not that the pie is shrinking, but that it has to be cut into ever thinner slices. “This generation is beginning to realise they have missed the big party,” says an Omani anthropologist. “Their fathers had scholarships abroad, and came home to government salaries of $3,000 a month. These guys came out of our own universities, and have to hunt for work in the private sector, where starting rates now are more like $500.”

In Bahrain, Oman and Saudi Arabia, where oil income per citizen is relatively low, the frustrations are already evident. Overall unemployment may look low because of the high proportion of expatriates in the workforce, but the rate among local youths is rising alarmingly. On an unofficial count, it is over 20% among 18-30-year-olds in Oman, 14% in Bahrain and 15% among Saudi males (women barely register in the Saudi workforce). It is estimated that in the kingdom under half the 100,000 jobseekers entering the market every year currently find jobs.

In Bahrain, which was the first GCC country to strike oil and might be the first to run out, graduates already stage regular demonstrations to demand work. Kuwait, Qatar and the United Arab Emirates, with their tiny populations in relation to their oil riches, have so far been spared such unrest. But as Jassem al-Saadoun, a Kuwaiti economist, points out, “All that separates us from Bahrain is a little time.”

To ward off looming trouble, most Gulf countries have launched highly publicised campaigns to replace foreign workers with locals. There have been some successes. The native proportion of workers in private Omani companies, for example, has jumped from 10% to 20% since 1990. The “Saudisation” programme, which requires Saudi firms to raise the proportion of locals on their payrolls by five percentage points a year, has reduced the dominance of expatriates in sectors such as banking. And while many jobless youths do not bother to work because their families are wealthy and willing to keep them in comfort until “appropriate” positions arise, others have been forced into jobs once considered fit only for expatriates, such as driving taxis and working in petrol stations. This is the only way they can earn enough, these days, to go through the costly rites of marriage, home-building and child-rearing.

Yet anecdotal evidence suggests that the obstacles to employing locals remain formidable. Part of the problem is that although the Gulf has plenty of its own hard-driving high achievers, the years of easy money and state coddling have seriously weakened the work ethic. “I want to hire Saudis, but why would I hire someone who I know won't show up, won't care and can't be fired?” asks a Jeddah businessman. In Oman, some private firms resort to filling “Omanisation” quotas by hiring natives, then sending them home to let expats get on with the job. In Saudi Arabia, the government last year barred foreigners from working in the lucrative gold trade, then granted a flood of exceptions as dealers complained about a sudden surge in wage bills and a plunge in work quality. One international retail chain tried to please the Saudi authorities by hiring local sales staff. It received hundreds of applications, but after conducting large numbers of interviews turned away every single one of them for lack of qualifications or motivation.

The main obstacle to hiring locals, however, is simple economics. As an official in the Saudi Ministry of Planning explains, the classic principle is that wages should equal the marginal productivity of labour. “But here, since we've opened the gates to imported labour, we're talking about the marginal productivity of labour in Bangladesh.” In relatively poor Oman, many construction workers from the Indian subcontinent receive half the minimum legal wage for locals. With labour-exporting countries from India to Lebanon offering an unlimited supply of highly skilled, dedicated workers willing to accept low wages, the Gulf's employers naturally snap them up.

And it is not just businesses that think they are getting good value from expatriate workers, but private employers too. The estimated 3m domestic servants in the region, all foreigners, often endure conditions equivalent to indentured servitude, with housing and food subtracted from salaries, no time off and no fringe benefits. Some of them start off indebted to employers who charge a “fee” for gaining visas and work permits. The luxury of having a docile, cheap and disposable workforce is hard to resist. Kuwait, in a feeble effort to narrow the wage gap and so encourage the hiring of Kuwaitis, decided to make employers pay for expatriates' health insurance (medical care for Kuwaitis being free). A revolt by householders forced the government to exempt domestic servants from the rule.

But Kuwait remains intent on trying to make wage levels converge. Another way of achieving the same aim would be to try to limit the number of expats. This would have the added advantage of stemming the outflow of remittances, which now drain the Gulf countries of some 10% of their GDP. Even government officials, however, recognise that this will take time. Besides, the trade in foreign labour is lucrative. Selling “sponsorships”, like letting out the property that foreigners are forbidden from owning in most GCC states, has come to be seen as a natural right of their citizens. And some of the region's peculiar traditions make it hard to do without foreign labour. For example, Saudi Arabia employs some 500,000 private chauffeurs for the simple reason that its women are not allowed to drive.

Bored to distraction

There is another reason why having lots of young, underemployed natives kicking their heels is not a good idea: boredom. This is especially acute in Saudi Arabia, where most women still languish at home, unable even to go shopping without a male chaperone. A small but growing number do work, albeit in carefully circumscribed trades and spaces. For example, the chief of econometrics in the Ministry of Planning leads a staff of 20 female statisticians by Internet and closed-circuit TV, because he is not allowed to be in the same room with them. And men, whatever their job, have to do without cinemas, bars or other distractions.

It is all very well to visit relatives, or to have family picnics in the desert, but not all the time. Small wonder that Internet chatrooms get roaring traffic. Small wonder, too, that some people get rowdy, whether that means singing football songs or running off to join the mujahideen. As a diplomat in the region says, “It's not just that boredom is demoralising. Added to the confusion between tradition and modernity, it makes people extremely, even dangerously, manipulable.”

Saudi Arabia is the most restrictive of them all: in the halting English words of a Syrian bellboy in Riyadh, “It is a very...dry country.” Kuwait has cinemas and puts few restrictions on women, and its citizens are wealthy enough to go abroad on holiday. Qatar and Oman permit alcohol, although their people bother less about it than their “teetotal” neighbours. Dubai and Bahrain, with their ladies' nights and go-go shows, take things a step further. But all across the Gulf, the amount of aimless milling and flirting that goes on in shopping malls suggests that people would gladly spend their time more usefully, if only they had something better to do.

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SURVEY

A pearl in the Indian diaspora

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Gulf Indians may lack citizenship, but many of them want for little else

YOU could be forgiven for finding the souks of Bur Dubai confusing. The lilting merchant patter, the scent of joss-sticks, the profusion of cashmeres, silks and cottons, and the polysyllabic splendour of shop names all evoke the shores of Gujarat rather than Arabia. The difference is that the names are spelled in English, the streets are spick and span, and the crowds look uniformly prosperous.

Not only look, but are. Many of Dubai's Indians, who make up the largest national group in the emirate (larger than locals), do work long hours for low wages, and scrimp for the day they can go home. Indeed, this applies to most of the Gulf's 3.5m non-resident Indians, or NRIs. Quite a few, however, have done very well indeed and sunk deep roots.

Maghanmal Pancholia's family, from the Sindhi city of Thatto, started trading pearls in the Gulf in the 1800s. By the 1920s, Mr Pancholia's father was running 30 dhows out of Sharjah. Life on the Trucial Coast then was too hard for wives and children, so his son finished school in India before joining the business in 1942. In those pioneering days before air conditioning, Mr Pancholia recalls, you had to buy murky well water for a rupee per tin, and filter it with cheesecloth. The only place to eat was a single kebab shop, the only way to get to the neighbouring emirate of Abu Dhabi was by sea, and a watchman with a gas lantern locked the souk's wooden gates after sunset.

As business prospered in the 50s, Mr Pancholia helped finance the construction of Dubai's first power plant and the dredging of the creek, a development that allowed the emirate to overtake its trading rivals. He recalls how Dubai's then ruler, Sheikh Rashid al-Maktoum, was so fond of the Indian *banian*, or merchants, that he visited their homes during the festival of *diwali* and made a point of serving vegetarian food.

In the plush boardroom of Dubai's India Club, a group of NRI businessmen chortle when Mr Pancholia, asked about his current line of business, says he sells watches. Mr Pancholia is too discreet to explain that he runs a business empire with a global reach in trade and finance, and is a big shareholder in several UAE banks. He is also revered in the Indian community as a generous philanthropist.

Just like home

His story is not unique. The Jashanmal department-store chain, with branches across the Gulf and sales in excess of $100m, started as a stationery shop serving British troops opened by Jhanglani Jashanmal in Basra, Iraq, in 1919. Khimji Ramdas, an Oman-based conglomerate with interests in trading, retailing, franchising, catering and manufacturing, was founded in 1870. The current partners, proud citizens of Oman, are 5th-generation descendants of Ramdas Thackersey, a native of Mandvi on the coast of Kutch.

In Dubai, one in 20 Asian households has a monthly income of more than $10,000. Indians here enjoy such ethnic amenities as Hindi-language radio and cinema, temples for most denominations, restaurants serving every variation of regional cuisine, cricket grounds, pageants and a full calendar of cultural events. Indeed, the tax-free emirate is so cosy that it has long served as a haven for the Indian underworld. Local police recently nabbed a Mafia don known as Farhan after he foolishly telephoned from Dubai to claim responsibility for a gun attack on the American Cultural Centre in Calcutta. In 1999, one Madhav Patel managed to defraud Dubai banks of $300m before vanishing.

One thing Dubai's NRIs do not enjoy, however, is citizenship. Nor have they been allowed to own property, at least until one luxury development offered foreigners 99-year leaseholds last year—most of which were snapped up by NRIs. But with business booming, no one is complaining. “Nationality has never been a handicap here,” says Mohan Valrani, a resident of 38 years who manages the local Shirawi Group's 20-firm portfolio and chairs the India Club. “We've been treated well for 200 years. We appreciate operating in a really free economy, in a tolerant society where everyone's too busy to bother with religious stuff. Even between Indians and Pakistanis there is absolutely no tension here.”

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No taxation, no representation

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From The Economist print edition

Absolute monarchy lives on in the Gulf. But for how long?

AP

SEEN from afar, the Gulf states look very much alike. They are all hot, dry, dripping with oil and ruled by conservative monarchs. Yet there are many more internal political differences among them than meets the eye.

It is true that, unlike in most of the world's surviving monarchies, rulers in this part of the world really do rule. Their families control every provincial governorship and senior military command. The prime ministers and the defence, foreign and interior ministers in all six countries belong to the ruling clans. In Oman, Sultan Qaboos himself officially holds every one of these posts, though lower-ranking ministers of state, all cousins of the sultan, are in charge of the day-to-day business. The sole, tiny exception is the United Arab Emirates, where the current minister of the interior happens to be a commoner, but more by accident than by egalitarian design.

The Gulf's ruling families are big. There are around 25,000 al-Sauds, though only 5,000 are princes, and only a hundred or so are senior princes. One in every 500 Kuwaitis is an al-Sabah. The same sort of ratio applies in most of the other states, although the al-Thanis of Qatar make up almost one in five of that country's citizens.

The sway of these families does not end with government. In the style of modern royals, the Gulf's princes and princesses, sheikhs and sheikhas are active patrons of sport, charity and the arts. What is less modern about the Gulf is the hazy distinction between government budgets and royal purses. The value of the stipends that each of the states pays to family members, including quite distant relatives, is mostly unknown. They also enjoy such perks as free travel on national airlines, free utilities and ownership of prime property.

Certainly, most of the Gulf's ruling clans have amassed large, and in some places truly colossal, fortunes. Part of this is simply luck: they happened to be in charge at a time when sudden oil wealth tipped the balance between the merchant classes and the sovereigns. But the big money has often come not directly from the oil wells but from private businessmen who seek the royals' patronage. "You can do business here without a partner from the family," says an investor in one of the emirates. "But it sure smoothes the way."

A plethora of princes 4

Country	Current head of state and start of reign	Effective ruler	Form of succession and next in line	Degree of democratisation
Kingdom of Bahrain	Sheikh Hamad bin Issa al-Khalifa, 1999	Same	Primogeniture; Crown Prince Sheikh Salman bin Hamad	Two houses, one elected, one appointed; elections by universal suffrage scheduled for autumn 2002
State of Kuwait	Sheikh Jaber al-Ahmad al-Sabah, 1979 (ailing)	Sheikh Sabah al-Ahmad al-Sabah, brother of the emir	Alternates between two branches of Sabah family; Crown Prince Sheikh Saad al-Abdullah (ailing)	Parliament elected by male citizens since 1965, but cabinet is appointed
Sultanate of Oman	Sultan Qaboos of Oman, 1970	Same	Male descendant from al-Said family, to be chosen by family council	Weak consultative assembly elected by limited suffrage
State of Qatar	Sheikh Hamad bin Khalifa al-Thani, 1995	Same	Ruling emir designates heir; Crown Prince Jassem bin Hamad al-Thani	Appointed consultative body, municipal elections by universal suffrage
Kingdom of Saudi Arabia	King Fahd, 1982 (ailing)	Crown Prince Abdullah	King appoints heir from Faisal branch of al-Saud family	Appointed consultative body
United Arab Emirates (Federal state composed of seven smaller emirates)	Sheikh Zayed bin Sultan al-Nahayan, emir of Abu Dhabi and president of UAE, 1966 (ailing)	Same	Crown Prince of Abu Dhabi, confirmed by other emirs; Sheikh Sultan bin Zayed al-Nahayan	Advisory national council, appointed by seven member emirates

Not much call for democracy

Most outsiders assume that the Gulf states are stifling autocracies. This is not altogether wrong, but needs to be tempered by an understanding of the region's unique history and social structure. To begin with, all the region's ruling families have held authority for a very long time. The al-Sauds trace their lineage back more than 30 generations, although they did not emerge as powerful princes in central Arabia until the mid-18th century. At different times they were allies of the Qawasim, who now rule the small emirates of Sharjah and Ras-al-Khaimah, and of the al-Sabahs of Kuwait, who gave refuge to the al- Sauds when they were briefly ousted from their lands in the 1880s. That debt was repaid during the Gulf war in 1990, when the al-Sabahs fled south from the invading Iraqis. Sultan Qaboos of Oman is the 12th descendant of the al-Busaid clan, whose founder controlled a vast Indian Ocean empire. The al-Khalifas of Bahrain conquered their pleasant island in 1783, leaving their poor cousins, the al-Thanis, to inherit Qatar, a desolate peninsula that turned out to hold more natural gas than all the rest of Arabia.

The Gulf's tribal, arch-patriarchal society bolsters royal rule. In every country a web of marriage alliances links ruling clans to other leading families. The al-Sauds, for example, are closely intermarried with the descendants of Muhammad Abd-al-Wahhab, an 18th-century religious reformer whose puritan version of Islam is sometimes called Wahhabism. Across the region, the tradition of the *majlis*, or open meeting between rulers and subjects, is held up as an effective form of popular representation. Outsiders may think that having a prince in charge of every Saudi province is feudal, but the al-Sauds argue that local *majlis* meetings keep the family attuned to the needs of their people. Sultan Qaboos, one of the most unfettered autocrats in the world, takes a caravan of ministers to a different region of Oman every spring where any petitioner can meet him face to face, seated on the floor of his tent, and see justice done on the spot.

Saudi Arabia and Oman are large countries with diverse native peoples, but the other Gulf monarchies are, in effect, city states where rulers and ruled are physically so close to each other that intermediaries are often unnecessary. Their citizens tend to identify more strongly with the sovereign than with the state.

Father figures

In spite of the clumsy personality cults cranked up by the

By and large, and in spite of the clumsy personality cults cranked up by the region's ubiquitous ministries of information, Gulf rulers are quite popular. Sheikh Zayed of Abu Dhabi, now 84, is revered at home and abroad, and not just for his fabled generosity and gruff desert wisdom. (He once told a French interviewer that he found it useful to meet his subjects personally, “Because our secret police don't get it right half the time.”) It was his vision that created the United Arab Emirates, and his charm that is largely responsible for holding the union together. Sultan Qaboos, too, is seen as the father of his nation, which Omanis readily admit was a medieval backwater before he overthrew his own father in 1970. Even Sheikh Jaber al-Sabah of Kuwait, though long-ailing, inarticulate and ineffectual, brings out spontaneous crowds of well-wishers on every return from a foreign sanatorium.

region's ubiquitous ministries of information, Gulf rulers are quite popular

The institution of monarchy, with its centralised powers and long periods of reign, has stamped each Gulf state with the personality of its rulers. Oman is as neat and proper as might be expected of a place run by a Sandhurst graduate. The famously jovial demeanour of Dubai's Sheikh Rashid al-Maktoum, who ruled from 1958 to 1990, has left its mark in the emirate's laisser-faire attitude to business and social mores. The steely will and public-relations savvy of his son, Sheikh Muhammad, is the driving force behind its current boom. By contrast, the sense of drift evident in Kuwait, and until recently in Saudi Arabia, stems as much as anything from their rulers' lax attitudes and failing health.

Many of the Gulf's people recognise that it is not a good thing for their countries' fate to depend on rulers who may or may not be wise. Anxiety for the future is not much of a problem in countries with relatively young and dynamic leaders, such as Bahrain or Qatar, but it is a worry in several states where succession is a pressing issue. King Fahd of Saudi Arabia and Sheikh Jaber of Kuwait, both largely incapacitated by strokes, currently have able stand-ins. Yet Crown Prince Abdullah is already 78, and the Kuwaiti emir's brother, Sheikh Sabah, who runs day-to-day affairs, is also elderly and has 40 years of public service under his belt. In neither country is the path by which the next generation will come to power clearly defined. Saudi Arabia, in particular, looks set for a bout of brief reigns as the baton passes among the dozen or so remaining elderly sons of the kingdom's founder, Abdul Aziz ibn Saud. Unless, that is, Abdullah assumes the throne soon and anoints a junior prince as his heir.

Plenty to be grateful for

Given all this uncertainty, the Gulf's citizens might be expected to want a bigger say for themselves. Pressure for democracy, however, is surprisingly weak. Aside from the weight of habit and history, the Gulf's people accept their rulers because they have been getting a pretty good deal. It is easy to say that this is only because oil wealth has made generous patronage possible. Yet it is also easy to understand that when your children's life expectancy is half as long again as your parents', as it is across the Gulf, and when the house that you live in was paid for mostly by the state, you tend to accept the status quo.

Another good thing about the Gulf is that its people pay no income tax. “I would love to pay tax,” sighs a would-be democrat in Saudi Arabia, “if only so I wouldn't have to pretend to be grateful all the time.”

“I would love to pay tax, if only so I wouldn't have to pretend to be grateful all the time”

All this means that demands to limit kingly powers are heard less frequently than calls for rulers to rein in their relatives, or at least to define their rights. In Saudi Arabia in particular, commoners point to continued royal extravagance despite straitened times. Businessmen complain that the country's plethora of princes elbow aside competitors. In an unprecedented sign of concern, Crown Prince Abdullah has tried to curtail princely commissions on public-works contracts.

Imposing family discipline is no easy task, however. The reforming emir of one state who had slashed his relatives' handsome stipends was forced to reinstate them when they threatened to revolt. In Bahrain, where the ruler, Sheikh Hamad al-Khalifa, changed his title from emir to king this year, observers say he was trying to sharpen the distinction between himself and his wider family so that he could trim their privileges at a later date.

More common than demands for democracy are calls for bolder, more responsive autocracy. “What we need is daring leadership that is receptive to criticism, accommodating to dissatisfaction, yet prepared to lose popularity,” says Abdullah Bishara, a former Kuwaiti diplomat and former secretary-general of the GCC.

This may sound odd coming from a noted liberal in a country that has by far the most deeply entrenched democratic institutions of any Gulf state. Yet Mr Bishara's opinion is the product of experience rather than of sentimental attraction to kingship. Like many Kuwaitis, he feels that the country's parliament, despite the healthy atmosphere of open debate it creates, has been more of a hindrance than a help to progress. Kuwait's 1962 constitution provides for an elected legislature, but for an executive government appointed by the ruler. This often results in a logjam. “Everything here gets kibitzed to death,” says a diplomat, citing a litany of important legislation, including a bill to grant women the vote, that has been blocked by parliamentary grandstanding.

It could be argued that the emirate's troubles could be solved by more democracy rather than less. Even so, Kuwait's experience has dampened enthusiasm for democracy elsewhere in the Gulf. Oddly enough, the biggest strides towards popular participation have been taken by the rulers themselves. Qatar, the first Arab country to have abolished its ministry of information, held municipal elections under universal suffrage in 1999, and its emir is thought to favour an elected legislature. Oman's Shura Council is directly elected, though its powers are purely advisory. Even in the rich, complacent United Arab Emirates there are whispers of reform.

The star reformer is Bahrain, a country that was wracked by violent unrest in the early 1990s, and whose Shia majority has long resented rule by a Sunni dynasty. Since coming to power in 1999, however, the then emir, now King Hamad, has emptied jails, freed the press, invited 1,000 exiles to come home, given them jobs and won over 98% approval for a charter of reform in a credible referendum. Local elections will be held this spring and national ones in the autumn. The result may not be a full transition to constitutional monarchy, because the king will still appoint a powerful upper legislative body, but Bahrainis seem optimistic that they have put their political troubles behind them.

Ripe for reform

Other Gulf leaders must envy the near-hero status that King Hamad has gained in such a short time. Yet perhaps Bahrain's example shows that some degree of trauma is needed to bring about dramatic change. The giant of the region, Saudi Arabia, may be in for just such a shaking. The kingdom is the Gulf's political laggard, with no representative institutions of any kind, a heavily restricted press and fearsome security services. There is no shortage of Saudis who want reform, including many within the ruling family. So far, any progress has been hobbled by the tangled matrix of interests at the centre of the Saudi power structure. But now, with oil prices slumping and demographic pressure mounting, the country finds itself squeezed as never before. Crown Prince Abdullah has himself spoken of a “suffocating crisis”. To enable them to escape from this predicament, the al-Sauds may have to secure a mandate from their people after all.

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The pen and the sword

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The complexities of Muslim identity

AP

A once-in-a-lifetime experience

A STORY that takes pride of place in Saudi history books is how, one moonlit night in 1902, Saudi Arabia's founding father led 40 followers in a daring raid on Riyadh. It was Abdul Aziz ibn Saud's first step to avenging the rivals who had chased his clan from central Arabia. He was to succeed beyond his wildest dreams. But progress was slow at first until, at the urging of the puritan Wahhabi clerics who had been allied with the al-Saud family since the 18th century, Abdul Aziz sent out missionaries to preach *jihad* (holy war). Soon, bands of bedouin youths, determined to purge the faith of idolatry, began flocking to Abdul Aziz's banner. The new recruits, known as the *ikhwan*, or brothers, became his shock troops.

Abdul Aziz won some territory by marriage, some by cunning, but most by the sword, with the ruthless *ikhwan* at the head of every cavalry charge. When the holy cities of Mecca and Medina fell in 1925, he found himself master of a poor and unwieldy territory stretching from the Gulf to the Red Sea. Abdul Aziz was astute enough to see that his power to control, let alone expand, the realm was already stretched. He turned his attention from conquest to state-building, and soon he, along with most of his subjects, began to tire of the *ikhwan*'s fanaticism. Pious though he was, Abdul Aziz chafed at their refusal to accept any form of "innovation", which they claimed to see even in such useful things as cars, telephones and electric power. They also disapproved of their leader's courting of foreign oil prospectors. Their intransigence, he feared, would dash his hopes of future wealth.

Worse still, some of the *ikhwan* refused to abandon *jihad*. Ignoring the borders that Abdul Aziz had settled with British-ruled Iraq, they regarded the country's Shia Muslim population as fair game. After all, Abdul Aziz's own great-great-grandfather had led a Wahhabi army to sack the Shia shrines of Najaf and Kerbala back in 1803. But when Britain's air force responded to *ikhwan* raids by bombing the invaders, Abdul Aziz decided he had had enough. In 1929, at a place called Sabila, 200 miles north of Riyadh, his loyalists used truck-mounted machine guns to blast the *ikhwan* into submission.

Unlike that daring moonlit raid on Riyadh, the encounter at Sabila does not get much play in Saudi schoolbooks. But it shows how hard it can be to get the genie of *jihad* back into its bottle. It also demonstrates that when sufficiently challenged, the al-Sauds are capable of some pretty effective recorking.

Saudi Arabia is the only modern Muslim state to have been

Saudi Arabia is the only modern Muslim state to have been created by *jihad*, and the only one based on an implicit alliance between the "men of the pen", or religious scholars, and the "men of the sword", an alliance symbolised by the Saudi national flag. The legacy of *jihad* has left an undercurrent of Wahhabi expansionism, which surfaces in the al-

Sauds' generous funding of Islamic centres abroad, but also, fatefully, in ventures such as helping to liberate Afghanistan from Soviet rule.

created by *jihad*

The limits to wordly power

The clerical alliance places heavy constraints on Saudi rulers. A revealing account of Abdul Aziz's court in the 1920s by Ameen Rihani, a Lebanese-American author, remains just as valid today: "The king may make a dozen treaties with infidel powers; he may call the people to...*jihad* as need be, he may grant a concession to an infidel corporation to exploit the oil and mineral wealth of the country, but he cannot with immunity change a tittle in the Koranic law or directly abrogate, even modify, a religious custom."

This is why the kingdom remains the most formally conservative of Muslim countries. Most other Gulf Arabs, and many Saudis too, find the country's rules, particularly with regard to women, unduly rigid. They would agree that it suffers from a condition that Mr Rihani described as "Wahhabitis". Yet the kingdom has come a long way since the days when playing music or smoking cigarettes was punished by whipping. The Islamic code, or *sharia*, still governs civil and criminal law, but the need to engage with the outside world has allowed secular codes to creep into such spheres as commerce and banking. School textbooks may still exhort the faithful to shun infidels, citing narrow Wahhabi interpretations of tradition, and there are still provincial Saudis who will not respond to a Christian's greeting. But the vast majority of Saudis are perfectly at home in the wider world.

At least, so they thought until September 11th last year. The fact that the attacks on America were carried out in the name of Islam has shaken Muslims everywhere. In the Gulf, reaction to the event has taken two opposite directions. Perhaps predictably, it has provoked a backlash against *jihadist* extremism. Yet it has also roused Muslims' indignation at what they see as two injustices: that they are being collectively condemned for the actions of a few, and that the world is insensitive to Muslim suffering in places such as Palestine, Kashmir and Chechnya.

The backlash against extremists in the Gulf has taken several forms, some public, others less so. Shaking off initial timidity, governments across the region have strongly attacked the institutional props to *jihadist* groups such as Osama bin Laden's al-Qaeda. The hundreds of millions of dollars a year that once flowed unchecked to Islamic charities, some of which had links to extremists, are now carefully vetted. Every GCC country has introduced laws against money-laundering and frozen suspect bank accounts. Security forces have tightened controls on the movement of people, and in Saudi Arabia have arrested a number of suspects.

The backlash against extremists in the Gulf has taken several forms, some public, others less so

Perhaps more important, September 11th has shaken the Gulf out of its complacency about Muslim identity. The region's would-be modernisers have ended their long silence on the *jihadist* agenda. Since September, and particularly since the collapse of Taliban rule in Afghanistan, editorial columns in the Gulf have lambasted *jihadists* for leading the flock astray. They have openly questioned the logic of framing the answers to current problems in scriptural terms, and called for changing the intolerant tone of religious schooling. In public at least, liberals still only hint at the benefits of separating religion and state, but they are cheered by the trend towards limiting religious space.

Even Crown Prince Abdullah of Saudi Arabia, whose reputation for probity lends his words extra weight, recently gave a warning to mosque preachers that "exaggeration" in religion was making them "a target for those against Islam". This gentle princely circumlocution, however, also revealed how sensitive Saudi rulers are to the kingdom's conservative majority. Since September, the idea of powerful forces being ranged "against Islam" has gripped the region more than ever. This has less to do with sympathies towards Osama bin Laden, although his riches-to-rags tale continues to inspire some, than with exaggerated reports about western hostility towards Arabs. But then, with the less responsible American media describing Saudi Arabia as a "cancer", its rulers as "lacking in respect for life and humanity", and in one instance calling for an American takeover of oil fields, a certain prickliness might be expected.

"If we have crazy preachers, they have Oral Roberts and Jerry Falwell"

Even Saudi liberals are dismayed by what they see as American heavy-handedness in pursuit of terrorism. "Bush's war is just not marketable here, with those ultimate double standards," says a Jeddah businessman, who says he used to "worship" the American constitution until it produced a president without experience of foreign affairs. "Why can't they see that our extremists are just like their Idaho militias? I admit their criticism of our schoolbooks is valid, but I doubt that Talmudic schools in Brooklyn are very polite about *goys*. And if we have crazy preachers, they have Oral Roberts and Jerry Falwell."

A more common tack is to blame the West, and particularly America, for mistaking the symptoms (Islamist terrorism) for the disease (widespread Muslim anger about what many see as western contempt for their culture and aspirations). "It's not true that these people were influenced by Islamic teachings," asserts a junior Saudi prince. "They are like a cancer that needs something to feed on. If the West had addressed problems like Palestine, they would never have survived."

Such reactions suggest it will be a long time before Gulf societies dig to the roots of their discontent with the world. Ordinary Muslims naturally take it for granted that their faith is good, and bridle at suggestions that there might be something wrong with it. The lack of a formal hierarchy in Sunni Islam, moreover, allows for conflicting interpretations, so that reformists are always exposed to conservative backbiting. And as often as not, those religious scholars who have gained wide enough respect to initiate change are the products of narrow training in scripture and have little experience of the world. They guard their independence jealously, yet their salaries are mostly paid by the state. If they were to adopt the more liberal line preferred by the region's rulers, they might be suspected of selling out.

In search of certainties

It does not help that the opportunities for open debate are limited. This is particularly true of Saudi Arabia, with its wary princes, timid media and total lack of representative institutions. Yet even in open-minded Kuwait, where the press and parliament are downright rowdy, Islamist politicians have clouded issues and hindered reform with their point-scoring, rabble-rousing tactics. Allied with tribal traditionalists, they have blocked government moves to grant women the vote, and forced Kuwait University to segregate classes. Together with members of parliament keen to protect the emirate's ruinously expensive welfare system, they have scuppered efforts to open up the economy.

Here, and elsewhere in the Gulf, a schism seems to be opening up. This is not so much about "western" versus "traditional" lifestyles, the most obvious sign of which is the contrast between lightly clad and heavily veiled shoppers in the mall. As often as not, young people in the Gulf are equally comfortable with either form of dress. There is even a trend towards mixing, say, a traditional white robe with a baseball cap, or a modest-looking headscarf with heavy make-up. In tolerant Dubai, whose commercial ethos and non-Muslim majority preclude heavy enforcement of religious rules, there is no tension to speak of. The Arab natives of the city uphold traditional ways not because they are made to but because they want to.

The deeper quandary is about where people turn for answers to life's questions. Should they struggle for practical, temporal solutions, or surrender to the infinitely detailed prescriptions that religious scholars are happy to provide? Struck by a tidal wave of change, Gulf Arabs are looking for certainties to cling to. At the same time the region's societies are proud of their resilience. “We are part of the world,” says Dr Ahmed Salah, an adviser to the Saudi Ministry of Planning who sports the regulation untrimmed beard of a true Wahhabi. “We cannot live alone. If we resist pressures, it is not because we are Islamic. We want to preserve our values like everyone else.”

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Meccanomics

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Profit from the prophet

BEFORE oil, religious tourism was Saudi Arabia's largest industry. It still ranks a distant second, generating annual revenues of perhaps $8 billion. Unlike oil, however, the "holy places hospitality trade", as local entrepreneurs call it, is free of price volatility, and its underlying resource will not run out. It employs four times more workers than the oil industry. Best of all, it is growing faster than any other sector of the economy.

This may seem surprising, since there are clearly limits to the number of Muslims who can perform the *haj*, or pilgrimage to Mecca. This is a once-in-a-lifetime religious duty incumbent on all Muslims who can afford the journey. Over the past 30 years Saudi Arabia has invested $35 billion in improving facilities for pilgrims, but bottlenecks persist. Moving several million people, many of them elderly, along a four-day, 28km course of rituals within strict time limits is hard work.

Between 1950 and 1980 the number of pilgrims soared from 100,000 to 1m a year. Since then the Saudi authorities have imposed quotas on overseas pilgrims, which currently limit each country to one *haj* visa per 1,000 Muslim citizens. Even so, over the past decade the numbers have crept up by 3.5% a year. The number of overseas visitors expected this year was around 1.3m, in addition to 1.4m from within the kingdom.

The Saudis plan to cope with the continuing rise in demand by providing better infrastructure and, perhaps more important, by encouraging religious scholars to be more flexible. After a series of fatal accidents caused by overcrowding, for example, some Saudi scholars have extended the time allowed for the ritual stoning of pillars, one of the concluding rites of the *haj*.

Come, all ye faithful

The biggest growth, however, will come not from the *haj*, but from the non-obligatory *umra*, or lesser pilgrimage. Until recently, the Saudis issued *umra* visas only for the three months outside the *haj* season, banned their holders from travel outside the holy cities and restricted them to one trip a year and a maximum of two weeks' stay. All the same, rising incomes and cheaper, more frequent flights have caused *umra* travel to grow by 10% a year for the past decade. Some 750,000 Egyptians alone paid holiday visits to Mecca and Medina last year, a tenfold increase on 1991. Such visits are becoming increasingly fashionable even in distant countries such as Malaysia.

The Saudis have now opened the gates, allowing *umra* travel for nine months of the year. Pilgrims can come as often as they like, move throughout the country and stay for four weeks. *Umra* tour operators expect 2m visitors this year and are counting on a few years of 25-30% annual growth before the trend slows. Prince Sultan bin Salman, an ex-astronaut who heads the country's newly created tourist promotion agency, predicts a dizzying 34m visitors by 2020, and expects them to spend $23 billion. Half are likely to be *umra* travellers.

Mecca, where jumbled high-rise buildings already crowd the giant sanctuary, is getting ready for another boom. Land prices of $60,000 per square metre, many times more than in other expensive places such as Hong Kong, have done nothing to deter developers. Five colossal projects now in progress will alone add 50% to the accommodation available in the city by 2008.

On the Mountain of Omar, private developers plan to clear hundreds of old buildings to make way for 120 residential towers, each 20 storeys high, which will house a total of 100,000 people. On the hill of Ajyad, the trust that runs the Great Mosque recently demolished an 18th-century Ottoman fort. In its place will rise 11 apartment buildings, each with 40 storeys, and a 1,200-room five-star hotel. "Even after 1,422 years", notes Yasser al-Khouli, owner of a Jeddah software firm that devises "total solutions" for the pilgrimage industry, "the business around *haj* and *umra* is still virgin."

Economist.com PRINT EDITION SURVEY

Beyond oil

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The cure for oil addiction is known, but some find it unpalatable

The delights of Dubai

AFTER 20 years of driving taxis in Jeddah, Saudi Arabia's second city, Iqbal Kareem is going home to India. It's not worth the effort any more, he says. "They used to pay double or triple the meter. They didn't care. Now they bargain over half a riyal [about 15 US cents]."

Cabbies are great complainers the world over, yet Mr Kareem's declining fortune is not an isolated tale. Jeddah seems prosperous at first glance, but closer inspection reveals potholes, broken pavements and leaky drains. In summer, the lagoon bordering the central business district smells of sewage. A third of the city's 4m inhabitants rely on trucks to supply their drinking water.

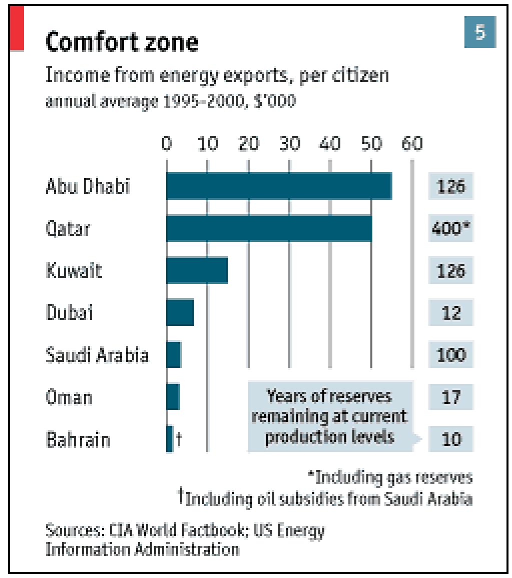
In 1980, Saudi Arabia was one of the richest countries in the world. Today, its economy supports twice as many people on an income not much higher in real terms. It remains the world's largest petroleum exporter, but it earns no more from oil than what America spends each year on cigarettes. Salaries alone drain 60% of the state budget, and domestic debt is bigger than GDP.

The kingdom is hardly poor, yet compared with its neighbours it is looking increasingly less comfortable. Its income per person is less than half that of upstart city-states such as Qatar or Abu Dhabi, where the shops far out-chic the kingdom's dowdy offerings, and where the average motor vehicle is one-third the age. Moreover, the poor parts of Saudi Arabia look scruffier even than the villages of Oman, a country that only 30 years ago had no paved roads outside the capital, and where income per head is only now nudging Saudi levels. Even the remotest hamlets of the mountainous sultanate are served by a mobile water distribution network more efficient than Jeddah's.

The kingdom's relative decline is not all its fault. The combined oil exports of all the GCC countries have dwindled from a peak of $150 billion in 1980 to an average of $80 billion in the 1990s. Most smaller Gulf states sell more oil per head than the Saudis, however, and have no need to extend costly infrastructure across a vast, largely empty hinterland. And most of them grew rich later, so they could learn from their big brother's mistakes. Their princely palaces are not so sumptuous, nor nearly so numerous. They did not splurge so lavishly on white elephants such as Riyadh's gargantuan $20 billion airport, a third of which has been mothballed since the 1980s. And although all Gulf countries followed the Saudi model of central planning and state capitalism, most of them have been faster to abandon it, quicker to diversify away from oil, and nimbler in attracting foreign investors.

It is also unfair to cast the kingdom as a couch potato. Saudi economists, businessmen and even government officials know quite well what is wrong, and what is needed to fix it. And indeed since a key speech by Crown Prince

Abdullah in 1998, in which he plainly stated that the oil boom was over, economic reform has gathered pace. Among other things, Saudi Arabia has issued laws to protect foreign investment. It has slashed tariffs to 5% across the board. It has obliged the main state firms—the national airline, the power grid and the telephone operator—to make their accounts more transparent, and it has set up regulatory bodies ahead of privatisation. A slew of other streamlining legislation is in the pipeline. The kingdom is also moving ahead with a giant scheme to allow big foreign oil firms to develop its huge gas reserves.



Yet an enormous amount remains to be done. Economists say the country needs to sustain 6% annual growth just to keep unemployment in check, rather than the 1.5% achieved on average since 1980. Saudi officials reckon they must spend $200 billion on basic services alone over the next decade. Demand for electricity is set to grow by 250% in the next 20 years, and for desalinated water by 300%. With the government's budget chronically in the red even without such extra outlays, and the post-September oil-price slump adding further urgency, the only hope is to open up the economy, fast. “The country is at a critical juncture,” says the manager of a regional investment fund. “It can coast along without radical changes for only one or two years, maximum.”

To-do list

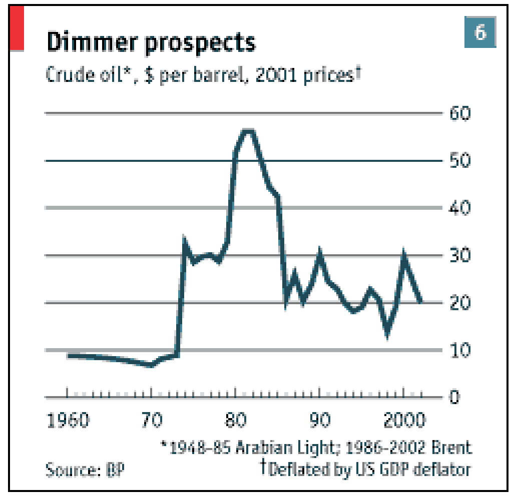
The prescription he has in mind is one that most outside analysts agree on. Privatisation needs to make rapid headway, and not only because private firms are more efficient. It is the best way of attracting back at least some of the $700 billion that wealthy Saudis have salted away abroad. Foreign investment in fields such as tourism, telecoms, utilities and financial services should be strongly encouraged. Taxes should be introduced, not just to reduce the state's debt, but to make revenues less dependent on volatile oil prices—or else the clerics who protest that anything other than a 2.5% “charity” tax is un-Islamic should be asked to pay for their free state schooling and health care.

The musty legal system needs an overhaul, too, whether the 700 religious judges who run it agree or not. This is not a question of tampering with Islamic law; it is a matter of standardising precedent, procedure and penalty so that citizens know where they stand. The cosy web of monopolies, exclusive agencies and commission-gathering gatekeepers must be dismantled, not only to squeeze profiteers but to create a transparent business climate that promotes trust.

Social policies need to be updated, too. It seems reckless to shut away half the country's talent because it happens to be female. Simply allowing women to drive could save the kingdom the 1% of its income spent on imported chauffeurs. And the taboo against birth control needs to be dismantled, as it has been elsewhere in the Muslim world. No country can afford to meet runaway demand on limited resources forever.

Given the kingdom's political constraints and the power of its vested interests, Saudi businessmen recognise that little of this will happen in the near future. But they would like the government to make a bigger effort to explain the gravity of the situation, and to debate more openly what can be done about it. On this score, at least, progress is being made. Crown Prince Abdullah has been blunt about the challenges facing the country, and at a recent business forum in Jeddah Prince al-Waleed bin Talal, the billionaire chairman of Kingdom Holdings, an investment group, spoke of the "nightmare scenario" of oil prices at $10 a barrel.

To one degree or another, all the Gulf states suffer similar problems. Oddly enough, the need for reform is most urgent in sleek, smug Kuwait. A country with overseas savings, public and private, of some $200,000 per citizen might not seem in dire need of change, but Kuwait is performing far below its potential. Despite the country's financial clout, there is virtually nowhere to invest the money at home. About 90% of the government's revenue comes from oil, and 80% of the economy is run by the state. Yet an informal poll on privatisation found a majority against it, for fear it would cause the government's generous payroll to be trimmed.



So coddled are Kuwaitis that few bother even to pay their electricity bills. They owe the state utility an estimated $1 billion. The country is beginning to lose talent as the ambitious give up and seek opportunities elsewhere. Even more worrying, the sclerosis affecting the bureaucracy has spread to the all-important oil sector. Technical incompetence, exacerbated by politicians handing out jobs for votes, was the underlying cause of a recent spate of deadly oil fires, according to most observers. And even Kuwait, say economists, cannot balance its budget when the oil price sinks below $22 a barrel.

Kuwait could learn a thing or two from its far poorer cousin, Oman. The sultanate has long recognised that it must make the most of its scant oil resources. It has spent frugally and made careful use of its natural advantages, such as its prime position astride important trade routes. The giant container port and free zone it has built at Salalah looks set to capture a growing share of the Indian Ocean transshipment business. And to make the best of its superb winter weather and miles of unspoilt coast, it has developed upmarket tourism rather than gone for the mass market. It has also moved ahead of its neighbours in privatising such assets as airports. Critics complain that Oman's government is complacent about its explosive population growth, its rigid labour laws and its turgid administration, but the bets are that it will still be a nice place to live when the oil dries up in 20 years' time.

Bahrain, too, has carved a niche for itself outside the oil business. This 700 sq km (270 square mile) archipelago manages some $85 billion in offshore banking assets. Financial institutions are attracted by a skilled workforce, good communications and a regulatory system considered the most effective in the region. The country long ago branched into industries such as aluminium refining, ship repair and petrochemicals. It also does a tidy business as a tourist destination for Saudis, who can drive across a causeway to soak up pleasures forbidden at home.

An open secret

But the Gulf's most dynamic and diverse economy, and the model that its neighbours increasingly turn to, is the tiny city-state of Dubai. It is so far ahead that it threatens to vacuum up much of the Gulf's free-floating business. A visit to the emirate's modest Economic Department helps to explain why. This is where businesses register, and it is clear that the place runs like a Swiss watch. So does Dubai's spanking new airport, from which it took this correspondent just seven minutes to exit, including passport control, luggage pick-up and customs. That was an improvement on the two hours once spent at Riyadh immigration, punctuated by police kicking casually at some Indian labourers who had fallen asleep in the queue.

“Dubai doesn't need to go through reform. It's already there,” beams the head of a government think-tank. The emirate is big on hype, but the view from his 45th-floor office bears out the boast: all swooshing highways, gleaming buildings and bustling ports in the distance. Dubai's population is growing at 5.5% a year, but the economy is growing faster still. Current construction projects include a vast new conference centre, a “Festival City” stretching along 4km of waterfront, a luxury housing estate for 150,000 residents, yet another giant air terminal, half a dozen skyscrapers and the same number of new 5-star hotels. Even this partial listing amounts to an investment of at least $15 billion, a sum equal to the emirate's entire GDP—and equal, too, to current orders for new aircraft by Dubai's booming flagship carrier, Emirates.

Naysayers claim that the place has overextended itself, that many of its vaunted projects are real-estate scams, and that the emirate can afford to spend so wildly only because the giant stores of oil in neighbouring Abu Dhabi, the anchor-state of the United Arab Emirates, offer a guarantee against default. So far, however, Dubai has lived up to the hype. Tourist numbers keep climbing. Competition from new ports, such as Oman's Salalah, has not stopped growth at Jebel Ali, the Dubai container terminal and free zone that all the others have copied. Even such unlikely-sounding events as the emirate's annual Shopping Festival seem to work. Last year it packed hotels to 90% capacity and generated $1.5 billion in extra sales.

Dubai's entrepreneurs like to attribute their prosperity to the no-nonsense business instincts of the ruling al-Maktoum family, whose current head, Sheikh Mohammad, takes advice from McKinsey and likes to be referred to as the emirate's CEO. “What's different here is that bright ideas get acted on immediately,” says an investment banker. With its nearby beaches, polyglot population and varied nightlife, the city is also a congenial place to live. But the key to Dubai's success is being what its neighbours are not: open-minded, open-hearted and wide open for business.